 CI

THE WHITE HOUSE

WASHINGTON

May 29, 1986

MEMORANDUM FOR ADMINISTRATION SPOKESMEN

FROM: TOM GIBSON

SUBJECT: Presidential Address on Trade Policy

For your information and use, attached is a copy of the President's May 29 address to the National Association of Manufacturers outlining Administration trade policy, and containing some reflections on the trade legislation that lately emerged from the House. Also enclosed is a sampling of journalistic commentary on the House bill, which might be useful to you in the coming weeks.

If you should have questions regarding these materials, feel free to contact the White House Office of Public Affairs at (202) 456-7170.

Thanks very much.

Attachment

THE WHITE HOUSE

Office of the Press Secretary

For Release at 11:30 a.m. EDT
Thursday, May 29, 1986

TEXT OF REMARKS BY THE PRESIDENT TO THE
NATIONAL ASSOCIATION OF MANUFACTURERS

J.W. Marriott Hotel
(Washington, D.C.)

May 29, 1986

It's a great pleasure to be with you once again. Today, I want to address you on one of the most important challenges that faces our Nation: keeping our trading system free and fair -- an open, vibrant, and expanding source of prosperity through the end of this century and beyond.

But before I begin talking about trade, I'd like to say a few words about your vote tomorrow on the Senate Finance Committee's tax reform bill. You can probably guess my feelings on the subject.

We have before us an historic opportunity to dramatically lower tax rates, and to draw America's investment capital out from under the shelters and back into the productive economy where it belongs. With this bill we can liberate the entrepreneurial genius of the American people and put the American spirit of enterprise into overdrive for our race into the 21st century.

This is truly tax reform that is pro-fairness, pro-family, pro-growth, and pro-simplification. That last isn't mentioned at all by those who oppose tax reform, but it's important to everyone who has to deal annually with the Internal Revenue Code. Let me give you an example. Here is the last sentence of Section 509(a) of the Code: "For purposes of paragraph 3, an organization described in paragraph 2 shall be deemed to include an organization described in Section 501(c)(4),(5), or (6) which would be described in paragraph 2 if it were an organization described in Section 501(c)(3)."

As for fairness: By dropping millions of working poor off the tax rolls; giving families with children a long overdue break; lowering tax rates and bringing the top rate down to its lowest level in half a century, we'll make it easier for every American to climb that ladder of opportunity and to keep the fruits of his or her achievement. More than a century ago, a Scottish economist spoke of the principle of the progressive tax. To paraphrase him: When we start taxing individuals on any other basis than proportional to their earnings, we are at sea without rudder or compass and there is no end to the mischief that can be done. I think we can all say "Amen" to that.

This bill represents a new consensus in America -- a pro-growth, pro-opportunity consensus. The politics of envy, which produced only bitterness and division, has been consigned to the trash heap of economic history. The days of the malaise economy and the zero-sum society are over. We no longer believe that one man's gain is another man's loss. We have a new vision of America, one in which we are all pulling together rather than pulling apart; one where we are marching forward together as one, proud and united.

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A growing economy with ever-expanding horizons, an economy of boundless energy and infinite possibilities -- this is a vision that does not, cannot, stop at our borders. Unfortunately, when it comes to the issue of trade, that old zero-sum thinking still persists. The same faction that brought us high taxes that locked out opportunity now wants to throw up barriers to lock out trade.

You know, it's said that if you laid all the economists in the world end to end, they still wouldn't reach a conclusion. But the one thing that practically every economist agrees on -- whether they're left, right, or center -- is that international trade is vital to a growing, high-employment economy, and trade barriers do nothing but destroy jobs and stunt economic growth.

But you don't have to be an economist to know that. No one who has lived through or learned the lessons of this century doubts how dangerous it is to play a game of chicken with our trading partners -- because it won't be long until we're both driving over that cliff.

I've been around to witness a sizeable chunk of this century, and I well remember the anti-trade frenzy in the late twenties that produced the Smoot-Hawley tariffs, greasing the skids for our descent into the Great Depression and the most destructive war this world has ever seen. That's one episode of history I'm determined we will never repeat.

I also remember that after the war, the peoples of the free world pulled themselves from the ashes and swore it would never happen again. From their vision and determination came a great act of statesmanship. With the unimpressive title of the General Agreement on Tariffs and Trade, or GATT for short, the global trading system was opened up and the free world entered an era of cooperation and prosperity unparalleled in human history.

In that post-war prosperity, the United States became the world's greatest trading Nation in history. I don't have to tell you about the benefits of trade: that greater choice and lower prices for consumers, businesses, and manufacturers means greater productivity and improved living standards for all.

Over half a trillion dollars in goods were traded across our borders last year. Exports account for one out of every four farm acres planted and one out of every six manufacturing jobs. But even more important, trade is a spur to innovation. Despite the faint hearts constantly putting down this country's ability to compete, we remain today the world's largest exporter and the most competitive Nation on Earth.

The American economy is blazing a trail toward the future. Since 1980, we've seen commitments to venture capital increase fourfold, record numbers of new businesses incorporated, and a 42 percent increase in companies listed over-the-counter in the stock market. Our entrepreneurs and scientists are in the vanguard of technological innovation: from custom-made computer chips to genetically engineered vaccines to the latest developments in robotics -- the label reads "Made in America."

And we heard some good news from the Labor Department this morning. The index of leading economic indicators rose 1.5 percent in April, the largest increase since October 1983, while the previous 2 months were revised to show greater gains than earlier reported; and productivity figures for the first quater were revised upward too -- all signalling good times ahead.

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That doesn't mean that in some sectors of our economy the pain isn't very real. In some cases, the disruptions of a changing world economy have caused personal hardship for America's workers -- and in those cases it is our commitment to help those workers move into healthy and growing industries. And we will meet that commitment. But no one benefits by anti-trade legislation that pits one worker's job against another, that divides American business and industry and sets them off against each other, fighting for a piece of a shrinking pie.

America doesn't need to hide behind trade barriers. Given a level playing field, Americans can out-produce and out-compete anyone, anywhere on Earth. That's why it's the policy of this Administration to open markets abroad, not close them at home.

This doesn't absolve other nations from playing by the rules. Free trade means, by definition, fair trade. And where other nations aren't playing by the rules, this Administration is more activist, more aggressive than any other in blowing the whistle on unfair trade practices against American producers.

In the past year alone, we have gone after Korean abuse of intellectual property rights and we've increased access of American agricultural products to European and Taiwanese markets. While we prefer to negotiate, we have taken -- and will take -- strong action when necessary against markets closed to American goods and services. And to prevent other countries from selling below cost and unfairly moving in on American markets, we have initiated 528 anti-dumping and countervailing duty cases.

Constant negotiations with Japan are opening up markets previously shut to American exporters. Over the past year we've worked to open Japan to American exports of telecommunications equipment, medical equipment, pharmaceuticals, electronics, and forest products, and we're going after transportation equipment. We have been intensively negotiating with the Japanese on semi-conductors, and I am pleased to announce that we have the framework of an agreement which would open Japanese markets to U.S. computer chips and prevent Japanese companies from dumping their chips on American markets. While the precise details still have to be hammered out by Ambassador Yeutter, this framework should allow for significant new market access.

Just last week we began negotiations with Canada, our largest trading partner, on a new comprehensive free trade agreement which should lower barriers to U.S. exports. From insurance in Korea, to computers in Brazil, to tobacco products in Japan, this Administration is making sure that American exporters get a fair shake abroad.

All these initiatives are important. But if our critics are seriously interested in creating a level playing field for American industry, they have to look with us at the underlying reasons for the imbalance in world trade. The first we have corrected: the dollar is now at a more competitive level with foreign currencies, and that means increasing American exports.

The second important reason for the imbalance in trade is the basic imbalance in the world economy. Because we cut tax rates and regulations, controlled spending, and squashed inflation, our economy has been growing and prospering. But the world is not growing along with us. Burdened by tariffs, quotas, over-sized governments, and marginal tax rates as high as 80 percent, economies in Europe, Africa, and Latin America have stagnated, even declined. With incomes falling and unemployment high, they can no longer afford to buy our products. That's one major reason why, between 1980 and 1984, imports into Western Europe dropped by 18 percent, Africa by 17 percent, and Latin America by 34 percent.

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Despite this devastating decline in world trade, America has stayed competitive. The members of N.A.M. deserve a lot of credit for the fact that in 1984 exports of U.S. manufactured goods increased by over 8 percent -- and they went up again in 1985. Our share of world exports of manufactured goods has increased too, from 17 percent in 1978 to 20 percent in 1985.

America's manufacturing production has risen steadily and is just as big a part of our overall economy as it was 30 years ago. All those who talk about the so-called "deindustrialization" of the United States should take a look at the real figures, then maybe they'd realize that America's best days aren't over, they're just beginning.

The world doesn't need more tariffs and taxes and the unemployment they produce. It needs more pro-growth policies that lower tax rates and interest rates, create jobs, and expand world trade. And once again, America is taking the lead. We are strengthening the world monetary system, the foundation of international trade, and as I mentioned before, the dollar is now at a more competitive level with foreign currencies. We're combating economic decline in the debt-ridden developing countries by promoting high-growth, low-tax, free-market reforms. We're encouraging Japan to reform the bias against consumption built into its system.

And next September we expect to launch a new round of GATT negotiations with our trading partners aimed at opening up markets for everyone. The docket will be full, including current rules that aren't working properly -- for example those in agriculture and the settlement of disputes -- as well as the trade issues of tomorrow, like services, intellectual property protection, investment, and high technology.

All of these are real solutions to the real problem of getting the world economy back on the growth track. That's the track to a future of open vistas and unfolding opportunities, a future where we all grow together, where every nation's prosperity augments our own.

Unfortunately, the House of Representatives last week turned its back on the future and started marching right back to Smoot-Hawley. Its so-called "Omnibus Trade Bill" is really an ominous anti-trade bill that could send our economy into the steepest nose-dive since the Great Depression. This reactionary legislation would force American consumers to pay billions in higher prices, throw millions of Americans out of work, and strangle our economy as foreign markets slam shut in retaliation.

This anti-trade bill isn't "protectionism" -- it's destructionism. We've created nearly 10 million new jobs since the recovery began, more jobs in the last decade than Europe and Japan combined. But this bill would start wiping them out. The Commerce Department has estimated that the jobs of 5-1/2 million American workers are dependent on exports. That's 5-1/2 million American jobs that would be threatened if this bill were passed into law.

Who would be some of the first victims? You don't have to look very far; they're right here at home: the aerospace machinist at Boeing's plant near Seattle who builds some of the world's finest passenger planes; the recording engineer at C.B.S. records; the wheat farmer in Nebraska and the longshoreman in New Orleans loading grain on ships destined for foreign ports, to name just a few.

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No job is safe in a trade war. In this modern society all our fortunes are connected by a million links in a chain of interdependence. If these people lose their jobs, what of the automobile dealer who hoped to sell them a new car, or the trucker who hauled the cars, or the auto worker who made them, or the steel worker who fashioned the raw material, or the miner who provided coal to the steel factory; and what of the retailers, service people, doctors, and teachers whose livelihoods, ultimately, depend on their jobs?

This bill is so potentially destructive that even many of those who voted for it did so in the expectation it would be vetoed and so never become law. Well, if it comes to that, I assure them they will get their wish. The Democratic leadership may think this is clever politics in an election year, but the American people see this for what it is -- kamikaze legislation that could take their jobs down in flames.

Those who believe this is the way to go are, in reality, economic defeatists. They have lost confidence in the capacity of their own country, and their own countrymen, to compete in the modern era. They look out at the industrial democracies of Europe and West Asia, and the emerging democracies of Latin America, and instead of saying: "America will lead the world into a better and brighter future," they cry: "Stop the world, I want to get off."

I don't share that pessimism, that defeatism; I never did. And neither does young America. And neither, by the way, do our trading partners who marvel at what Europeans call "the American miracle" -- 3-1/2 years of expansion and job creation, and advances in science and technology that have left the whole world gaping at the near limitless capacities of the American people. I saw that firsthand at the economic summit in Tokyo. The leaders of the world's major industrialized democracies all wanted to know how they could inject some of that American spirit of enterprise into their economies.

Let me re-state, then, the trade policy of this Administration. We will root out -- and take action against -- unfair trading practices targeted at American products or American workers. We will be alert and aggressive in opening up foreign markets closed to American exporters. We will bring the world with us into a new era of free and fair trade. Free trade -- with free traders -- is our byword.

But we will not seek false security behind restrictive quotas and import duties. Nations that hide behind tariff walls soon fall behind. America's destiny is not to be second or third or fourth in the march to the future; it is to be in the vanguard, leading the free nations into a brighter and better era.

To those countries whose economies are still enmeshed in statist policies, the American economy is a shining example that freedom not only works -- it works wonders. If we further reform our tax structure, closing loopholes and bringing our top rate down to 27 percent, we will be opening the floodgates of progress and creating a momentum toward economic freedom that will sweep up the world in its currents.

We will see a global economy of opportunity emerge, one where markets are not only open, but constantly expanding. America has done it before, in more trying times. With your help, we can do it again. We can keep the miracle alive, not only for America, but for the world.

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The Philadelphia Inquirer: 5/27/86

Protectionist trade bill is exercise in self-deception

Born of popular resentment that foreigners — Japanese most visibly — are succeeding while U.S. factories close, the U.S. House of Representatives last week "did something" about it: It passed a bill ostensibly intended to "get tough" with foreigners who don't trade fairly. Advocates say that the bill would increase U.S. exports by forcing open foreign markets and that it would push the Reagan administration to act more forcefully to reduce the massive U.S. trade imbalance, which reached $148.5 billion last year, four times what it was in 1981.

That would really be something, if all it took to reverse a trend as complicated as a long-building historic shift in international economic relations was for Congress to pass a bill. Unfortunately it's nowhere near that simple.

The bill is irresponsible protectionism. It offers nonsolutions, encourages xenophobia and risks antagonizing allies into hostile retaliation. Its most pernicious terms would order West Germany, Japan and Taiwan to reduce their trade imbalance with America by 10 percent per year or have the President required to erect protectionist tariff and quota barriers against their exports.

If the Senate goes along, the President should veto it.

Sponsors call this legislation "getting tough," but it's just aggressive ignorance. The first reaction from a foreign target would be to cut its trade surplus by reducing exports to America, thereby reducing choices and raising prices to U.S. consumers. The second reaction would be to retaliate by blocking U.S. exports to that country, further injuring U.S. trade.

The primary governmental cause of the U.S. trade imbalance since 1981 has been the grossly overvalued U.S. dollar. But overvaluation is no longer a problem — though it won't register in trade statistics until after the fall elections — because the dollar's value has fallen more than 40 percent over the past year. That change alone will do much to restore balance to U.S. trade with many nations.

To be sure, the fallen dollar won't open a closed foreign market — such as Japan's — but neither would this bill. The best hope of opening Japan's market is the Japanese government's current effort to do just that by changing deeply embedded socio-cultural behavior patterns. Prime Minister Yasuhiro Nakasone's government is trying to shift Japan's economy toward sharply higher import dependence, which exporters not only here but around the world sorely need.

Japan is trying to meet its responsibilities as the capitalist world's second largest and most dynamic economy — something West Germany would do well to emulate — but it won't happen overnight. Such change is doubly hard since the recent reversal in the dollar-yen ratio is driving Japanese profits down and prompting its big businesses to relocate overseas — just as the high dollar did to U.S. industry.

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Trade problems can't be solved by congressional edict. The House trade bill is an exercise in self-deception. International negotiations, not parochial congressional politics, must set the rules of the game.

Ultimately the answer won't come from Washington at all. It must come from American business and industry, management and labor knuckling down together to meet the competitive challenge from abroad. The post-World War II era of American global economic dominance is over. Japan and West Germany, Europe and the Pacific Rim, can match America economically now. They and others will surpass the United States if it lets them. America has to get more competitive. It's as simple and as complicated as that.

The Dallas Morning News: 5/24/86

Trade Bill:

Rambo Jumbo

CALL it the "Rambo bill." The House floor last Thursday buzzed with muscular rhetoric about how Uncle Sam would strap it to all those furriners who have dared to sell us their goods at unacceptably low prices.

The trade protectionists prevailed, 295 to 115. Fifty-nine nervous-Nellie Republicans, reluctant to be out-Ramboed by the Democrats, contributed to the theoretically veto-proof margin of passage.

The bill has a few relatively decent provisions. For one thing, it would strengthen laws that protect U.S. copyrights and patents. But such provisions pale alongside the clause that would compel the president to impose trading sanctions, such as import quotas, in the event foreign competitors didn't restrict their imports.

So soon as their government lashed out at foreign imports, American exporters would find doors shut to them. Farmers, whose existence these days depends on their ability to sell abroad, would be hit especially hard. How odd to find people who want to "save the family farm" voting for a measure that would help destroy it.

The Rambo faction insists that there is no such thing as completely free trade. That's right, and the way you deal with that reality is make trade as free as humanly possible, not restrict it even more than at present.

Existing law empowers the president to address trade violations on a case-by-case basis; he can use various inducements and incentives to open up foreign markets. Sometime this fall a new round of General Agreement on Tariffs and Trade (GATT) talks begins. The talks will emphasize liberalizing international trade in services and high-technology goods, likewise the ending of foreign subsidies for food exports. This is how you address trade problems.

You manifestly don't address them by straitjacketing the president — forcing him to do harmful things like impose quotas on foreign goods.

Quite apart from the foreign retaliation this provokes, it drives up the prices Americans pay for particular goods and affords U.S. manufacturers a *disincentive* to become more efficient.

This loco piece of legislation, if it ever arrives on the president's desk, will be instantly vetoed; but that wouldn't entirely bother the Rambos of the House, who seem bent most of all on posturing for the voters — socking it to the Japanese and South Koreans and West Germans. All of whom happen to be warm friends of this country.

Why don't the Rambos, if they *really* want to show off their rippling muscles, gang up on some duly certified enemies? Like maybe the Sandinistas?

The Washington Post: 5/24/86

The Anti-Trade Bill

THE DEMOCRATS' protectionist trade bill passed the House with overwhelming support—a circumstance owing much to the assumption that it was, as congressmen say, a free vote. Since President Reagan has promised to veto it, everyone could happily vote for it with assurance that it will not become law. The authors of the bill argue that the enormous majority on Thursday, 295 votes to 115, will enable them to override a veto. But before it comes to that, many things will have happened. The bill now goes to the Senate, where the enthusiasm for starting a trade war with Europe and Japan is more restrained.

A myth of great durability sustains all trade bills in Congress. The myth holds that the United States alone plays by the rules, while all the other countries—the rats!—take advantage of our good nature and cheat. They do terrible things, according to the indictment, such as harassing American exports, stealing American technology and dumping. Some of those accusations are, unfortunately, true. But it turns out that foreigners have some complaints of their own.

Let's take dumping as an example—the practice of selling abroad at less than cost, to get rid of a surplus or perhaps to take over a market. In the world's trade tribunals, more dumping cases are filed against the United States than against any other country. That's not surprising. The United States is the world's biggest exporter. Sometimes dumping is inadvertent. Sometimes it happens because the rules count costs differently from the way businessmen do. The number of dumping cases doesn't mean that American exporters are immoral. But it does mean that the balance of equities in world trade isn't quite so clear as congressional speeches might lead an unwary listener to suppose.

The basic fault with the Democrats' trade bill is that most of it reflects only the grievances of the industries that are having trouble with their foreign competition. There's no consideration of the possibility that other countries would immediately apply these same provisions to American interests.

One example, among many: the bill contains a natural-resources provision, penalizing any imports into this country that use resources sold at less than market value. That's aimed at Mexico. Making cement and fertilizer requires a lot of natural gas. American cement and fertilizer companies have been complaining bitterly that Mexican competition is unfair because the government-controlled price of gas there is less than the government-controlled price of gas here. But if Congress passes the natural resources provision, a very long list of American industries immediately will be vulnerable to counterattack under the same rule. How about the farmers who depend on irrigation water that is grossly underpriced? How about all those manufacturers in the Pacific Northwest, with their access to that region's extremely cheap electric power?

House Speaker O'Neill denounces the administration for its insufficient concern for working people in the industries hurt by imports. But this bill will cost more jobs among the competitive export industries than it can save by protection. It's true that, until this year, the high exchange rate of the dollar did great damage to many American producers. But now the dollar has fallen, and by the end of the year American exports will be rising again. This is hardly the time to try to choke off trade.

REVIEW & OUTLOOK

Trade-Bill Terpsichore

That outrageously protectionist trade bill House Democrats have concocted is described by the Washington Post as a "shin-kicker," intended to make President Reagan pay heed to companies and labor unions protesting about competition from foreign goods.

Rep. Bill Frenzel (R., Minn.) comes closer to the mark in saying that the House leadership "prefers an issue to a law."

In short, this bill, now scheduled for floor debate in the House next week, is an exercise in political grandstanding. With it, House Democrats want to show they are willing to get tough with foreigners who so deviously scheme to sell Americans Sonys and Audis. No president with any regard for the health of the international economy could sign it. But a veto, the progenitors believe, will cost Republicans votes in November.

We would urge them not to be quite so certain. Congressmen spend their time preoccupied with parochial concerns, failing to discern that Americans are becoming more internationalist in their economic thinking. Americans need only look around to see that they derive some very large benefits from internationalized innovation and competition. Moreover, the trade bill's authors have so overplayed their hands that knowledgeable people doubt their seriousness. It's not nice to play games with legislation.

It's not nice partly because it demeans lawmaking, but partly as well because it carries certain dangers. There is always a possibility that events will conspire to allow a bad bill to actually become law.

Something of that sort happened in 1970-71. A Democratic Congress set a political trap for Richard Nixon not unlike the one now being laid for Ronald Reagan. Congress gave Mr. Nixon something he did not want, the discretionary power to control prices and wages, burying it in a veto-resistant defense production bill.

The Democrats then piously proclaimed that Mr. Nixon had all the authority he needed to "control inflation," then 5.5%. Republicans were fu- [illegible] for inflation. They called it "devious Democratic demagoguery."

Almost a year to the day after Mr. Nixon accepted those unwanted powers, the collapse of the Bretton Woods international monetary system prompted him to use them. He applied "temporary" controls. They disrupted U.S. production, helping precipitate, among other things, the first oil "crisis." Underlying inflationary pressures rose and eventually exploded, real incomes fell and the nation's economic policy debate degenerated into confusion and acrimony.

The trade bill is cut from the same cloth. One of its more mindless provisions would require 10% annual reductions in the U.S. trade deficits with Japan, Taiwan and West Germany. To accomplish that pointless feat would necessitate market interference of the most ham-handed type, disrupting capital flows as well as trade. It would also be a gross violation of international trade rules hard on the heels of Mr. Reagan's success in Tokyo in engendering a new round of trade-liberalization talks.

Still another section would attempt to legislate "workers' rights" in countries shipping goods to the U.S. Every U.S. trading partner will see the hypocrisy. The intent isn't to protect workers abroad but to keep the goods they make out of the U.S. market.

The bill would make it mandatory for the president to retaliate by a date certain against any nation deemed guilty of an "unfair" practice. This, too, is ham-handed. An arbitrary deadline could simply cut off talks on some issue at a crucial point, quite possibly losing some U.S. exporter a sale. To argue that Congress can legislate in advance the outcome of negotiations betrays, among other unattractive qualities, a streak of arrogance.

As we say, these and other exercises in economic demolition in the bill have led us and a good many other people to conclude that the Democratic leadership is not serious. Maybe things look different from inside the Beltway, but from our perspective it's hard to see how playing fast and loose with public policy can [illegible]

The Boston Herald: 5/24/86

Protectionism hurts us all

THE protectionist trade bill pushed by the Democratic leadership in the House and approved by that branch this week is pure political grandstanding. It aims to break the sinister conspiracy by which Japanese industrialists presumably scheme to sell us Toyotas and Panasonics.

The Democrats are well aware President Reagan will not sign such a bill. But it is widely believed that a veto will cost the GOP votes in November. As Rep. Bill Frenzel, R-Minn., says, "The Democrats prefer an issue to a law." And analysts wonder why Congress is held in such low repute by the public at large.

Sam Rayburn, one of Thomas P. O'Neill's Democratic predecessors as House speaker, railed against tariff increases, calling them "the most unfair tax possible on the farmer." Rayburn, who hailed from a hardscrabble, dirt-farming district in northeast Texas, knew that keeping out foreign manufactured goods would mean retaliation against the products produced by his constituents.

Now the last thing America's beleaguered farmers need these days is retaliation against their produce, particularly since the falling dollar overseas is causing agricultural exports to pick up.

Those parts of the trade bill that are not simply pernicious are merely mindless. One section calls for reducing our trade deficits with Japan, Taiwan and West Germany by 10 percent annually, a feat that would require the most ham-fisted interference with the market. The bill would also mandate retaliation by a date certain after a country has been deemed guilty of an unfair trade practice. This would cut off negotiations at critical points and would defeat its purpose.

As for what Japan is up to, their market-closing tactics are hardly without cost to themselves. Keeping lower-priced American telephone equipment out of the country means it costs three times as much to call New York from Tokyo as it does vice versa. If Japanese consumers want to pay higher prices for domestically-made goods that would be cheaper if imported from abroad, then we say: let them.

Bad policy rarely makes good politics. Frankly, we think the American people are smart enough to realize that protectionist bromides aren't the way to raise U.S. exports, for if they were, we'd have done it a long time ago.

Christian Science Monitor: 5/19/86

Trade's the global game

IT is ironic — but also fitting — that a major issue emerging in the 1986 mid-term US congressional campaign involves jobs: creating new ones and protecting those that already exist.

Ironic, because of the overall prosperity that now marks the US and global economies. Fitting, because many economists are asking increasingly hard questions about the durability of the current recovery — and because, in the United States, far too many high pockets of unemployment persist. The unemployment rate has inched downward lately, to 7 percent for April. Yet the rate is still high by postwar standards. The current rate masks areas of high unemployment: Eleven states have unemployment rates higher than 9 percent.

The job issue is coming to the fore on at least three broad fronts. It is important that the American public recognize what steps are being taken to promote jobs — and also what steps are under way that, although intended to create jobs, could actually have the opposite effect: undercut job growth.

- Protectionism: This week the House is expected to take up major new protectionist legislation pushed by Democrats. The omnibus trade bill would transfer from the president to the Office of the Special Trade Representative the right to determine whether overseas trade practices are fair under terms of existing law. The White House would be required to enter into negotiations with nations that have an "excessive trade surplus" with the US and that follow "a pattern of unjustifiable, unreasonable, or discriminatory trade policies."

This provision would surely apply to Japan, Taiwan, and West Germany.

The Reagan administration, concerned about what it feels is the unwise effect of such legislation on American diplomacy, opposes the approach. We agree. It is vitally important that such legislation, if needed at all, be drafted in such a manner as to forestall retaliation from abroad.

- Diplomacy: The administration is prodding other nations into opening up their borders to expanded US exports. Japan is asked to boost consumer purchasing, which could absorb Japanese products aimed at export and could also help spur US sales to that nation. The White House is advocating a new round of global trade talks, including trade in services. Finally, it is pushing ahead bilaterally to expand trade in such regions as the Caribbean, and between the US and Canada. Talks between Ottawa and Washington for a new free-trade zone embracing the two nations are to begin this week.

- Penalties: Congress is not alone in going the protectionist route. Last week the administration announced standby restrictions on a number of European exports in retaliation for what the White House perceives as unfair trade acts directed against American farm sales to Spain and Portugal. It is also considering imposing sanctions against Brazil for that nation's refusal to lift restrictions on US computer exports.

Such penalties must be regretted. Nations should not be allowed to commit blatant violations of fair trade standards. But the global community does not need a new round of protectionist barriers, which actually work against the flow of goods and services.

If the past decade has proved anything, it is that when it comes to commerce — and job creation — the world is more interlinked than ever. That is the message that Washington needs to convey abroad.

Opening up — not closing off — trade remains the necessary goal.

THE WHITE HOUSE

Office of the Press Secretary

FOR RELEASE AT 11:30 AM
THURSDAY, MAY 29, 1986

Address by the President
to the National Association of Manufacturers
on United States Trade Policy

Thursday, May 29, 1986

FACT SHEET

The President spoke to the National Association of Manufacturers and to the American people about one of the most important challenges that faces our Nation: keeping our trading system free and fair. The President cited the benefits of international trade, including greater productivity and improved living standards for all Americans.

The President stated that the trade policy of this Administration is to open foreign markets, not close ours. The President said that the United States will be alert and aggressive in opening up foreign markets presently closed to American exporters. A key priority will be the September launch of a new round of multilateral trade negotiations.

The President said that the Administration will take action against unfair trading practices targeted at American businesses and workers. The President reviewed a number of recent U.S. trade policy actions, which showed that this Administration has been more activist and more aggressive than any other in combatting unfair foreign trade practices.

The President restated his opposition to H.R. 4800, the "Omnibus Trade Bill," and said that if the proposed legislation reaches his desk in the same form in which it passed the House of Representatives, it would be vetoed. The President also reaffirmed his support for the tax reform proposal passed by the Senate Finance Committee on May 7, 1986.

AMERICAN ECONOMY FLOURISHES UNDER FREE AND FAIR TRADE

Free trade helped make the Reagan economic recovery possible. The U.S. economy has grown for 42 consecutive months, expanding at a 3.7 percent annual rate, adjusted for inflation, during the first quarter of 1986.

Job Creation -- Nearly 10 million more Americans are working today than in November 1982. The number of Americans working today is the highest in history -- about 110 million. The percentage of Americans with jobs (about 61 percent) is the highest ever. The unemployment rate has fallen by about one-third in the past three and one-half years.

Total employment in Western Europe, on the other hand, is virtually the same today as it was 10 years ago; since the labor force grew over the same period, unemployment rates have increased.

Lower Inflation -- The Consumer Price Index has risen 1.6 percent for the past 12 months. So far this year, the CPI has fallen at a 2.3 percent annual rate. Over the past 12 months, the Producer Price Index has declined 2.1 percent; so far this year, the PPI dropped at an 11.1 percent annual rate, a record decline for a four-month period.

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Income gains outpace inflation -- So far this year, real disposable personal income has increased at a 6.7 percent annual rate.

Lower Interest Rates -- During the previous Administration, the prime interest rate soared from 6.25% in early 1977 to 21.5% at the end of 1980 -- an increase of over 15 percentage points. Under the Reagan Administration, the prime interest rate has dropped 13 points and now stands at 8.5%, the lowest in more than seven years.

Innovation and Risk-Taking -- Since 1980, commitments to venture capital funds have increased fourfold; record numbers of new businesses have been incorporated; and the number of companies listed over-the-counter in the stock market has increased 42 percent. In addition, productivity growth in the manufacturing sector has been strong. Since the fourth quarter of 1982, productivity growth in the manufacturing sector has averaged a 4.2 percent annual rate.

President Reagan is determined to continue this broad-based economic progress. That means addressing the basic causes of the trade deficit and fighting unfair trading practices and trade barriers.

ADDRESSING THE TRADE DEFICIT

We are dealing with the basic causes of our trade deficit. Since February 1985, for example, the Japanese yen and the West German mark have risen over 50 percent against the dollar. The yen recently reached its highest level against the dollar since World War II.

- o Currency realignments normally take 12 to 18 months to show substantial effects on trade flows. U.S. firms are already seeing improvements in their export sales.

- o By late 1986, the effects will become even more visible; substantial improvements in the overall U.S. trade balance should occur in 1987.

In addition, the LDC (Less Developed Countries) debt problem is being addressed, providing expanded markets for U.S. exports. Among the industrialized nations, arrangements for closer economic cooperation are in place, fostering improved world economic growth and greater exchange rate stability.

FREE TRADE WITH FREE TRADERS

There can be no free trade without fair trade. The President's dedication to free trade is reinforced by a determination to identify and halt cases of unfair trading practices against U.S. producers.

Our actions are aimed at opening markets abroad, not closing ours. These U.S. goods and services will benefit from Reagan Administration actions:

-- pharmaceuticals and medical equipment;
-- computers, electronic equipment and computer chips;
-- agricultural products -- wheat and other grains, citrus products, tobacco;
-- automobiles and auto parts;
-- insurance;
-- leather and leather footwear;
-- lumber and other forest products; and
-- intellectual property rights in all sectors.

Where other nations refuse to play by the rules, the Reagan Administration has been more activist and more agressive than any other in blowing the whistle on unfair trade practices against American producers.

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ACTIONS TO SUPPORT U.S. TRADING INTERESTS

President Reagan's attack on unfair trade practices is getting results. Over the past nine months, the Administration has taken nearly two dozen actions to allow American goods and services to compete on an equal footing with foreign competitors. The President has also acted decisively to preserve U.S. competitiveness where necessary due to rapid changes in market conditions. A brief summary of actions taken since September 1985:

- September 7, 1985: The Administration took the unprecedented step of self-initiating three unfair trade practice cases (Section 301) concerning:

  -- U.S. informatics sales in Brazil;
  -- U.S. insurance operations in Korea; and
  -- U.S. tobacco sales in Japan.

- October 16, 1985: Self-initiated an additional unfair trade case against Korean intellectual property right restrictions, and secured market-opening concessions from Taiwan on tobacco, wine and beer, in response to the U.S. threat of a trade case.

- November 1, 1985: Retaliated against the EC's failure to negotiate a settlement to the long-standing GATT citrus dispute by imposing duties on EC pasta exports.

- December 6, 1985: For the first time, self-initiated an antidumping case on 256K RAM semiconductor chips.

- December 1985: Achieved negotiated settlements of two long-standing disputes with Japan on leather and the EC on canned fruit as the result of the imposition of Presidential deadlines.

- March 31, 1986: The President initiated the first case ever under Section 307 of the Trade and Tariff Act of 1984 against Taiwan's automotive performance requirements. The President also ordered a fact-finding inquiry to determine whether the European Community's meat inspection programs would unfairly penalize American exports of up to $125 million worth of meat.

- May 15, 1986: Defended U.S. agricultural trade rights by imposing restrictions on EC agricultural exports to the United States in response to new EC restrictions.

- May 20, 1986: Addressed national security concerns about the future of the U.S. machine tool industry by ordering U.S. negotiators to open talks with Japan, Taiwan, West Germany and Switzerland to seek voluntary export restraints.

- May 22, 1986: Provided import relief to U.S. shake and shingle industry in the form of a tariff.

ONGOING TRADE INITIATIVES

A framework agreement has been reached with the Japanese to ensure adequate access to their market for U.S. semiconductor manufacturers as well as prevent the Japanese from dumping semiconductors in U.S. or third country markets. The Administration will be hammering out the details of this agreement to make certain that American interests are protected.

The Tokyo Economic Summit adopted new arrangements for closer economic policy coordination by the major industrial democracies. These arrangements should lead to improved growth, smaller trade imbalances and greater stability in international exchange rates. The Summit partners also endorsed the early launch of a new round of multilateral trade negotiations, targeting the September GATT Ministerial meeting for decisive progress.

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In 1985, the Reagan Administration successfully conducted intensive Market-Opening Sector-Specific (MOSS) negotiations with Japan in four sectors: telecommunications; medical equipment and pharmaceuticals; electronics; and forest products. Talks in 1986 will focus on additional sectors, including transportation. The Reagan Administration has entered into negotiations with the Canadians on a comprehensive free trade arrangement between our two countries.

The Administration has proposed legislation to improve intellectual property protection; follow-up activities include international consultations and vigorous use of U.S. trade laws against offenders.

This Administration is countering foreign subsidized agricultural exports by concluding over $400 million worth of sales under the Export Enhancement Program.

The Reagan Administration has proposed "War Chest" legislation and is aggressively using existing authorities to counter foreign subsidized export financing. For the first time, the Export-Import Bank has extended concessionary financing to a U.S. firm facing subsidized foreign competition for a sale in the U.S. market.

U.S. MUST PROMOTE GLOBAL ECONOMIC FREEDOM

The United States is the greatest trading nation in the world. We export over $200 billion in goods and services each year; over 5 million American jobs are dependent upon exports; exports account for one out of every four farm acres planted and one out of every six manufacturing jobs. America has more at stake in maintaining a healthy international trading system than any other country.

The task ahead is to sustain the progress brought by the Reagan economic recovery program -- not discard these gains by giving in to protectionism.

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